"UPL Limited Q2 FY20 Earnings Conference Call"

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MODERATOR: **MR. NITIN AGARWAL – IDFC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the UPL Limited Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal. Thank you and over to you sir.

Nitin Agarwal: Thanks, Aman. Good afternoon everyone and a warm welcome to UPL Limited's Q2 FY20 Earnings Call hosted by IDFC Securities. On the call today, we have representing UPL management; Mr. Jai Shroff – Global CEO; Mr. Diego Casanello – COO, Crop protection; Mr. Rajendra Darak – Group CFO; Mr. Anand Vora – Global CFO and Mr. Ashish Narkar – Senior General Manager, Finance. I hand over the call to the UPL management team to make some opening comments and then we will open the floor for question and answer. Please go ahead sir.

Anand Vora: Thank you, Nitin. Good afternoon everyone and thanks for joining us on today's results conference call. Today, we will start off with a brief update on the market by Diego and thereafter I will share the financial results. Over to you, Diego.

Diego Casanello: Thank you, Anand. Good afternoon everyone. In the second quarter, we are pleased to have reported a strong year-over-year growth of 11% in revenue and 11% on EBITDA on a pro forma basis. Despite the difficult market environment, this is our second consecutive quarter of strong growth since the closing of the transaction. In the first half of the year, total revenue has increased by 9% with EBITDA growth of 11%. These results places UPL once again among the fastest growing companies in this industry. We are very satisfied with how our teams have come together in this first 6 months after closing of the Arysta acquisition back in February. We could announce the large part of our new organization in April and clarify our new strategy and our new commercial policy to most of our customers back in the first quarter. We have worked hard to ensure that more than 80% of our business is now running through a single SAP system giving us excellent visibility and improved capability.

Today, our teams are fully focused on execution and on capturing the top line and cost synergies we have committed. In this regard, we continue to be ahead of plan. The integration that is also giving us a stronger leverage in key row and specialty crops. In these crops, the new UPL can offer broader portfolios and more attractive loyalty programs to distributors and farmers.

Our larger presence on the ground with our expanded sales, marketing and technical service team has allowed us to cross sell both legacy portfolios to more customers. We are also progressively moving our business from selling products to selling complete crop solutions from the beginning to the end of a season. In addition, our teams are trying to sell conventional crop protection products as well as biologicals. UPL is a leader in this attractive segment that grows faster than the rest of the market.

Let me give you an overview of our regional performance. Our business in LATAM showed very strong performance across large parts of the portfolio, driven in particular by Brazil. Revenues grew 24% in Q2. Brazilian farmers continue to benefit from the increased soybean demand out of China on the competitive exchange rate. With the stronger portfolio in key crops, UPL has managed to grow market share in this region. Dry conditions in Andean countries and political uncertainty in Chile and Argentina has muted market demand in these countries during the quarter. UPL market share is also increasing in Europe. Our business grew slightly, in a declining market in Q2. Dry weather has affected the large part of Northern Europe, reducing herbicide and fungicide applications. Our growing business in Southern Europe in specialty crops and our continuous growth with BioSolutions across Europe have offset the impact of the soft demand.

The market in North America is expected to decline in the mid to high single digits in the first half of this year. This is the result of the impact of floods in the mid-West, earlier in the year, as well as the early snowfall in the quarters in October. Both events have affected yields of corn and soy. Trade tensions between China and US have promoted additional uncertainty among farmers. Our business declined only slightly in Q2 and we could grow 3% in the first half gaining market share in most key accounts. This has been possible thanks to our broader product portfolio and the opportunity to be an alternative to customers that were sourcing from China.

In India, after the late arrival of the monsoon in Q1 that led to a poor Kharif season, rains came and soil moisture conditions for the Rabi season are good. Our business in Q2 increased 6% leading to almost flat revenues in the first half compared to the same period last year. Wheat and pulses area is expected to increase supporting sales of some of our key brands. Finally, our business in Africa and Asia declined 4% in Q2 affected by drought conditions in South Africa, South East Asia and Eastern Australia. Growth in the first half amounted to 2% compared to last year.

Let me spend some time discussing the progress we are making on integration. We remained ahead of target to deliver our P&L benefits from synergies this year with notable savings in procurement, plant and office consolidation, the internalization of outsourced field trials and operational excellence programs across the entire organization. We are very pleased with the positive trajectory in these first months. We have achieved top tier performance compared to industry peers in this first half, while at the same time integrating the business of Arysta. I want to thank our teams for this extraordinary outcome as well as our partners and customers who are placing their trust in the new UPL.

Q3 and Q4 are traditionally larger quarters and we believe we are well positioned to deliver our plan. We expect good agronomic conditions in Brazil and improving conditions in the Northern hemisphere. We therefore confirm our guidance for the full year. After **we unveiled**, our new OpenAg vision and purpose to the world in April this year, we have continued to make progress on engaging employees, customers and partners to join us. I believe that everyone understands the importance of our ambition to make every single food product more sustainable, make farmers more resilient as well as the fact that no one single company can solve the challenges that agriculture will face in this century. An open agricultural network that invites farmers, consumers, ag input suppliers and innovators to work together and create the best possible solutions is the key to solving this challenge. That is what OpenAg stands for and we are looking forward to continuing to implement this vision in the coming years. Thank you very much and I hand over now to Anand.

Anand Vora: Thanks, Diego. Thank you very much. Before I take you through the key numbers for the second quarter, I take as having read the safe harbour statement and would also like to highlight - the financial results for the quarter and half year are being compared with pro forma financials of the previous quarter and half year in order to make them comparable. The pro forma financial means the UPL plus Arysta combined financial results for the previous year**.**

Coming to quarter 2 results, the gross revenue for quarter ending September 2019 are Rs. 7,817 crores as compared to 7,066 crores for the quarter ending September 2018, a growth of 11%. Within the sales growth of 11%, volumes grew by 15%, there was a negative price variance of 1% leading to a constant currency growth of 14%. The exchange impact was unfavourable by 3% translating into a net increase in sales of 11%. The gross margins for quarter 2 increased to Rs. 3271 crores from Rs. 3150 crores in the previous year, an increase of 4%. This small increase is largely because there has been a drop in gross margins on account of; a) revenue mix; with lower growth of revenues in Europe and US and b) on account of the rupee depreciation and third being the product mix.

EBITDA, however, for the year stands at Rs. 1541 crores as compared to Rs. 1384 crores, a growth of 11%. EBITDA as a percentage of revenues was 19.7% showing an improvement of 12 basis points over the same period last year.

When comparing the financial results for Q2 with Q2 of 2019 on an “as reported basis”, the Q2 2020 figures are excluding the PPA adjustment of; Rs. 2 crores in variable cost relating to foreign currency transaction impact, Rs. 152 crores relating to depreciation and amortization and Rs. 46 crores related to deferred tax. The Q2 2019 figures are as reported in the previous year - which essentially are UPL numbers, excluding Arysta financial results. Revenue grew by 84% from Rs. 4257 crores to Rs. 7817 crores. EBITDA grew by 84% from Rs. 839 crores to Rs. 1541 crores and profit after tax, associate income and minority interest was at Rs. 502 crores, a growth of 54% over that of the previous year.

Exceptional costs in Q2 were Rs. 305 crores. Of this, Rs. 217 crores pertain to provision made towards a verdict announced by the jury in Agrofresh litigation. The balance of Rs. 88 crores was towards redundancy and other integration cost associated with Arysta integration. The pro forma revenue breakdown in terms of geography is as follows; Latin America had a growth of 24% from Rs. 3031 crores to Rs. 3767 crores, Europe has grown by 1% from Rs. 898 crores to Rs. 907 crores, rest of the world has degrown by 4% from Rs. 1381 crores to Rs. 1328 crores. North America had a marginal degrowth of 1% from Rs. 630 crores to Rs. 621 crores. The revenues in India grew by 6% from Rs. 1125 crores to 1195 crores.

Moving onto net working capital, the net working capital performance for September 2019 versus September 2018 is as follows: Net working capital decreased by 4 days to 116 days, inventories decreased by 2 days to 109 days, receivables decreased by 20 days to 121 days and payables decreased by 18 days to 114 days. The working capital days for both periods are based on trailing 12 months sales. As working capital movement has strong linkage with the borrowings and related debt position, it is important to mention that we are seeing a good improvement in the net working capital days of 4 days as of September 19. The net working capital as of end September 19 was 116 days versus 120 days as of September 18. It is also important to highlight here that considering the seasonality in the business, net working capital during the financial year increases quarter-on-quarter and peaks in the third quarter ending December and thereafter sees a significant drop in quarter 4.

I would also like to share the debt and cash levels as on end of September 2019. The debt position was Rs. 30,858 crores as of 30th September versus 29,287 crores as of March 2019. Cash level was at 1977 crores as of 30th September versus 2851 crores as of 31st March 2019. The net debt therefore was Rs. 28881 crores showing an increase of 2445 crores. Of this 2445 crores, Rs. 750 crores increase is on account of exchange rate fluctuation, thereby a net increase in debt is Rs. 1695 crores.

Cash flows for the operation for first half were at 2353 crores and net off working capital were at 1644 crores. Total one-off payments were to the tune of 964 crores. Of these 964 crores, Rs. 625 crores were towards working capital adjustment for Arysta acquisition, Rs. 162 crores towards acquisition of Bioquim, a company which we acquired in Costa Rica and Rs. 128 crores was towards integration cost. The CAPEX spend for the quarter stood at about 850 crores. As mentioned in the past, we remained committed to reduce our debt by 0.5 billion or US$ 500 million.

Synergy update: We continue to make good progress on cost synergies which for the quarter has been Rs. 190 crores, roughly US$ 27 million and for the first half has been Rs. 320 crores that is US$ 45.9 million**.** Revenue synergies are tracking as per plan.

Moving onto numbers for the first half, on a pro forma basis, gross revenues for the first half stood at 15,723 crores compared to 14,471 crores, a growth of 9%. Gross margins in first half after excluding PPA adjustments of Rs. 414 crores went up to Rs. 6,669 crores from Rs. 6,315 crores in the same period last year, an increase of 6%. Some of the reasons for lower gross margins were explained when I mentioned the Q2 numbers for the gross margin. EBITDA increased to Rs. 3199 crores from Rs. 2875 crores in the previous year. EBITDA as a percentage of revenue were 20.4%, an improvement of 48 basis points over that of the previous year. The overall sales growth was 9% comprising of 11% coming out of volume and 1% each has been the decline in prices and exchange, thereby on a constant currency basis, we have seen a 10% growth.

When comparing the financial results of H1 versus that of the previous year on "as reported basis", wherein H1 figures are excluding PPA adjustment of Rs. 414 crores in variable costs, Rs. 303 crores relating to depreciation and amortization and Rs. 215 crores related to deferred tax. The H1 figures are as reported in the previous year. That is just UPL numbers, so we saw revenue growth of 87% from 8391 crores to 15,723 crores. EBITDA grew by 90% from Rs. 1686 crores to 3199 crores and profit after tax, associate income and minority interest was at 1145 crores, a growth of 36% over that of the previous year.

As mentioned, the exceptional cost of Rs. 376 crores for the half year includes the 217 crores pertaining to provision for the Agrofresh litigation verdict and the balance cost largely relates to the redundancy cost and other associated integration costs. The pro forma H1 revenues broken down in terms of geography are Latin America revenues stood at Rs. 6167 crores amounting to 39% of our total revenues and representing 25% growth over that of the previous year. Europe degrew by 2% to Rs. 2539 crores, it represented 16% of the total revenues. Rest of the world grew by 2% to Rs. 2814 crores representing 18% of the total revenues and North America revenue grew by 3% to 1816 crores representing 12% of the total revenues. India region for the first half degrew marginally by 1% to Rs. 2388 crores and it represents 15% of our total revenue for the first half.

With this, the financial results summary has been given to you and we will be taking question and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Prashant Biyani from Prabhudas Lilladher. Please go ahead.

Prashant Biyani: Sir, due to higher share of revenue from LATAM, do you expect structural drift in gross margin at least for this year and next 2-3 years going forward?

Anand Vora: Yes, I think the overall margins for Latin America compared to that of some of the other geographies are slightly lower but with the introduction of fair number of new products, we are seeing an improvement in the Latin American margins. Diego may be you want to add something more.

Diego Casanello: Yes, obviously weather did not help in the Northern hemisphere this year but these are patterns that change year over year and so I think you can take from the fact that if you do the mix, you will see that our margins overall are actually very solid and as soon as these markets come back, we will gain momentum on our margins.

Prashant Biyani: By when do you expect the North American and European market to come back?

Diego Casanello: We are now preparing for the next season, right. So, the next season is going to start, let us say pre-season in December but then going through Q1 and obviously what happened this year in North America has been very unusual, not that it cannot happen again, but I would say it is not something we should be assuming for next year.

Prashant Biyani: Sir, the other global companies were also a bit sceptical about in North American market going forward as well, so do you also carry that scepticism going into next year given that we have also seen some high competition in some molecules?

Diego Casanello: No, the impact in North America has been on the soybean acreage in particular because of the US China trade tensions and the weather patterns, soybean just moved from North America to LATAM or to Brazil and Argentina, we have a very good position, actually relatively better position in LATAM in soybean, so it is not a negative for us. And in North America, demand in other crops remains very healthy and we are not worried about North America moving forward.

Prashant Biyani: Mr. Vora, what will be the CAPEX number for this year and any indicative CAPEX figure for FY21?

Anand Vora: For this year, we have guided for USD 300 million which is split as you know between tangible and intangible and as of now, as of 30th September, we are clocking about Rs. 850 crores of CAPEX spend. Typically, indication for 2021 we give it during the annual capital market day which is at the beginning of the year.

Prashant Biyani: And sir, for this year, any split between this tangible and intangible?

Anand Vora: Yes, I will just provide you the split between tangible and intangible CAPEX. The total CAPEX for tangible is about 1250 crores and the rest is towards intangible CAPEX.

Moderator: Thank you. The next question is from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

Tarun Lakhotia: I had two of them, if I just go to slide 17, there you have shown the numbers adjusted for PPA and integration, right, so just want to clarify one thing, the incremental PAT of 502 crores which you show if you were not to adjust the variable cost and amortization depreciation differences, shouldn't there be a corresponding 22% minority interest adjusted for that because if your profits would have been higher by 500 crores, there would be 110 crores minority which will go in the UPL Corp entity? Is that a correct understanding?

Anand Vora: Yes, that is right.

Tarun Lakhotia: And also this same corresponding 22% adjustment also needs to be done for the exceptional cost and like the 376 crores which you have, had you earned that profit which is what you are showing in the 1145 number, you had to pay 22% minority for that as well, right?

Anand Vora: So that is after the minority interest, right we have taken?

Tarun Lakhotia: So the exceptional item is net of minority, that what you are saying?

Anand Vora: The special item 376 is not, that is an exception. You are right, 769 which is there, the 376 there will be a minority adjustment for 22% there.

Tarun Lakhotia: So effectively like if I add these two numbers, 876 crores and then remove the 22% minority from that, your 1145 PAT should have been lower by roughly around 190-200 crores, right? I mean simple maths, just going by whatever clarity you…?

Anand Vora: Yes. That is right.

Tarun Lakhotia: And this 300 amortization depreciation is also something which is a recurring number right because this is intangible which you have accounted in your books and this is something which you continue to account for going forward as well, right?

Anand Vora: We have kept it separate just now because once we have the final PPA adjustment number, that is when we should be able to give the final numbers, so that is why we have kept it aside.

Tarun Lakhotia: The second question which I have is, if I look at your 1H EBITDA of about 3200 crores, in this you have already accrued 320 crores of synergy benefits, right. Of course as a company getting that benefit has allowed you to earn a 20% margin but if I were to assume that this 320 crores was not there, your underlying margins on a like-for-like basis has come off versus last year's number of say, 20%. This year, it is somewhere around 18%, so is that reflective of the current market environment or how much will you attribute to the change in product mix or geography mix and how much is because of say, input cost challenges?

Diego Casanello: It comes back to the situation we have described before which is basically the geographic mix, so as the market comes back in the Northern hemisphere, you will see margins coming back to the level that we had before and again obviously revenue synergies will come on top. We were just talking about North America, we have the broadest portfolio of herbicides in North America, excellent fungicide portfolio, so that is where also we are expecting significant amount of revenue synergy**.** So you should not read the situation in Q1, Q2 with weather patterns as in normal situation moving forward.

Tarun Lakhotia: In a normal environment we can say that your margins may be next year can very well move towards 23-24% (assuming the synergy benefits are going to flow in, assuming like in normal macro conditions)?

Diego Casanello: We will let you do the modelling, but I think it is fair to say that there is a potential for margin expansion.

Jai Shroff: This is also a very tough year in an environment where market goes down, everybody gets a little more aggressive than normal.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

Sonali Salgaonkar: Sir, my first question is our debt increase, our net debt has increased by about 2100 crores but we are maintaining our FY20 guidance of deleveraging of about 31 to 35 billion of debt, sir could you please help us understand how we could go about doing the same?

Anand Vora: As I mentioned in my commentary earlier, that clearly quarter-on-quarter because of the seasonal nature of our business, we see that the working capital keeps going up every quarter until and it peaks at in Q3 that is December quarter and thereafter you see a significant drop in the working capital. So that is one thing which will help us to reduce or repay our debt. Second is as you would see, I have put that in the slide, the penultimate slide where we have clearly highlighted that as a combined entity, the penultimate side is slide #11, if you see where we have highlighted that we are doing better as a combined entity on working capital as compared to 123 days in Q1 as on a pro forma basis, we have delivered 115 days of networking capital and similarly in Q2 against 120 days we have delivered 116 days and some of the other initiatives both in terms of improvement in EBITDA through synergy cost savings and other inflows and some of this one-off items are; like for instance the USD 31 million which you are seeing, the Agro fresh litigation, those payments will not happen in this year, may be it will take another 18 to 24 months before the actual payment happens. So considering these factors, we clearly believe that we should be in a position to reduce our debt by half a billion; at least as of now as we see the numbers, we are quite confident of delivering that.

Sonali Salgaonkar: And do we also maintain our working capital guidance for the full year that we set out at the start? That is about 100 to 110 days on the net working capital?

Anand Vora: Absolutely. You see in Q4 as a combined entity, if you look at on the pro forma for the last year it was 110 and as I mentioned in Q1, Q2, we are clocking an improvement over that so we are quite confident that at the end of the year between the band which we have shared between

100 and 110 days we expect to be more towards the lower end of the band, at least that is based on what we are seeing in Q1, Q2, where we have seen significant improvement over that of the previous year.

Sonali Salgaonkar: Sir, my second question is regarding the global demand-supply in agrochemical, sir, over the past two quarters specifically, we have been seeing weakening of pricing, the split that we give between volume and pricing and exchange, sir could you please help us understand whether this is transitionary or this is probably the start of a supply glut again**?**

Diego Casanello: That is a correct observation. We see export prices are of China for some active ingredients as well as some raw material pricing coming down. This was expected because what we have seen at the end of last year was the result of several shutdowns that at certain point, we were expecting to normalize and still the delivery situation out of China is constrained, but you will see prices normalizing. Now this has a negative and a positive impact, we are sourcing also raw materials and that is helping our margins and we have the cost competitiveness to be also able to compete in the market place and continue to increase our volumes, so that this scenario is a factor in our forecast in our plans moving forward.

Sonali Salgaonkar: Sir, but what about the global channel inventories? Are we seeing them bottoming out?

Diego Casanello: We are very satisfied with our level of inventory, especially after this first half and we have our inventories under control in vast majority of places. Industry channel inventories now obviously in some areas where there has been some drought situations like in South East Asia or this herbicides, in the case of the US, for example, with the floods there are industry channel inventories that is going to also increase the pressure on some of our competitors, but we have been managing our capital very consciously in these regions.

Sonali Salgaonkar: Sir and lastly on the outlook for sales and EBITDA growth, do we maintain our outlook of 8 to 10% sales growth and EBITDA growth of 16 to 20%?

Diego Casanello: We are maintaining that guidance here.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir, just wanted to have a sense on the growth outlook that we are having for our overall operation because what I am seeing that in the first half the most part of the growth or the entire of the growth has been led by LATAM and that being the kind of largest revenue contributor and with the trade war situation easing out, so do you see some slowdown moderation in the LATAM and other region remaining weaker that will impact the growth outlook for us in the near future and the next year?

Diego Casanello: The answer to the first question is no, we see LATAM still with lot of momentum going into the next 6 months and we will capitalize on that. We expect to capitalize on that. Also, in Q3, you will see business in North America in particular in Q4, Europe again, so we are assuming more normal conditions, let us say in the Northern hemisphere and so you will see those regions also growing.

Surya Patra: And anything on the European side that you can provide some outlook, what is the growth outlook there that you are having? Do you really see the demand pattern shifting towards the BioSolutions side and also since you are one of the leading BioSolutions players globally, so what is the current share of revenue from the BioSolutions that UPL will be generating?

Diego Casanello: Europe is going to continue to be a key region for UPL and we have now with a combined business presence in all countries and good part of also revenue synergies are expected in Europe. There is lot of cross selling activity happening and crop protection business, we are well positioned with respect to our portfolio looking at also some active ingredients leading the European union, so we have the potential to take some of that market share, but very interesting is the growth with BioSolutions because we are working more and more in expanding our presence with BioSolutions across the Western European countries. We are doing a significant part of our business in France, for example today we are already with BioSolutions. We don't disclose the exact value of the business that we are doing but it is significant let us say for us in UPL already and it is growing double digit in the last 5 years for the combined company and even this year we are expecting double digit growth.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: I wanted to understand the Brazilian market, how has been the start to the season and obviously, it is 20% plus growth has been across the industry, so does it mean that more or less the stocking is going to get over with 2H, should it come down in terms of the growth rate in second half?

Diego Casanello: What you have seen in Brazil is the impact of increased soybean acreage because that soybean that has not been planted in the US, it has now been planted in Brazil and at the same time, if you follow farmer margins with the very competitive exchange rate and the premium price that farmers are able to achieve for soybeans compared to the Chicago price that gives farmers very good profitability, that allows them to make increase the level of technology that they utilize in their soybeans today, so that is driving this increase in the market and because we are very well positioned with our portfolio, we have a complete portfolio in soybeans, on herbicides, insecticides and fungicides and that allow us to capitalize on that trend particularly. We expect this to continue for the next season, so obviously it is too early to say but we are very confident that we will capitalize on that.

Vishnu Kumar: The market in terms of inventory was it very less, now that the inventory has gone up, should the growth rate kind of slowdown or you think this 20% plus is achievable over the next, let us say, in another 6-9 months also?

Diego Casanello: I don't want to give you guidance from sales but what I can tell you is that our inventory level in Brazil is actually very favourable. It is lower than average in the last years, so what you are seeing is real demand increase.

Vishnu Kumar: And season has been good for the start in terms of rain?

Diego Casanello: It has been good so far. We have September-October a bit of dryness in some areas where corn is being planted but it is in the context of everything, not relevant.

Vishnu Kumar: And just one question on the US part, you had highlighted some issues on the Lifeline and Glufosinate with competition, how do we see our portfolio going forward there or what are the strategies? Are you indicating also that you will have to take higher aggressive price cut stance and any impact on margins there?

Diego Casanello: We are very cost competitive in Glufosinate and we are ready to make sure that we secure that market share and increase our market share in North America. Prices have come down but we also were expecting this to happen. We knew that this is the market that is growing, continues to grow, so volumes are going to grow up for Glufosinate globally and we believe that this is very interesting, very attractive business for us moving forward. So nothing that was not being planned let us say, for this season.

Jai Shroff: The glufosinate tolerant seed availability is increasing manifold for this season, so compared to last year, this year, we believe that there should be a good growth in the market, so there is price pressure, but we intend to grow our market share.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Two questions sir, first one the Brazil, I think it is a follow-up, so I think you mentioned that the inventory levels are lower than last year and of course the season looks good ahead. Based on some of the research on other competitors, I believe that the competition is going to rise in the coming, let us say, couple of years in Brazil, so how do you see your position from a cost competitive and also the product portfolio in the Brazil market? That is my first question and second is on the debt side, so I think you have maintained guidance of reduction of $500 million of debt, let us say, if I assume that you have 15 days of working capital improvement when you close at Q4 that still translates into roughly around $200 million of release on working capital and in H1, your net debt has actually increased, so I just wanted to understand how the balance part is going to get paid from a cash flow perspective?

Diego Casanello: With respect to the market in Brazil, Brazil has always been very competitive market, so the market continues to grow. I think what you can observe is that with the combined business now, we are able to dilute even more our overheads in the region that makes us more competitive in terms of our cost to reach our distributors in the farm. We have a broader portfolio so that we have revenue synergies of combining that portfolio as I was saying before, complete portfolios in soybean, in corn, in other key crops and then you also have to see that China is normalising but also cost for Chinese suppliers to Brazil are increasing through the enforcement of environmental protection law and that is levelling the playing field and is putting us in a relative, more competitive positions against these competitors too, so overall we have today much better position to grow in Brazil compared to the two legacies let us say a year ago.

Anand Vora: Coming to the working capital, I think as we have shared earlier to some of the questions as well in the commentary which I gave earlier. We are clocking better than the previous year as a combined entity and we are confident that we in Q4 where we will see a substantial reduction in working capital as collections come through largely from geographies like Europe, US as well as Latin America, we believe that there is an opportunity to probably not 10 days what you are assuming but could be higher number of reduction, so that is what we are working towards and that is one area where you would see the improvement in cash flows. Second is, as you know, 55-60% of our business is in second half and these are from profitable geographies, so considering that we expect much better EBITDA margins during this period which should further help us to reduce the debt. And today based on what we are seeing or forecast, we believe that we should be on course to reduce the debt to the extent what we have guided for which is about USD 500 million.

Moderator: Thank you. The next question is from the line of Saurabh from HSBC. Please go ahead.

Saurabh: Sir, would you like to give us a number of how much was the synergies on the revenue side in this quarter?

Diego Casanello: We will not communicate revenue synergy targets. You can imagine that we have significant revenue synergies. This is gradually ramping up but we don’t give the numbers specifically with respect to that.

Saurabh: Just asking because in the previous quarter, we had given out this number at $20 million, so I was just wondering if that will be shared with us over the next few quarters?

Jai Shroff: As we move on, it becomes more and more difficult to exactly define cross-selling to customers, so it is very difficult to quantify exactly what is happening, cross selling to the customers and as long as we are regionally and by product, gaining market share, it is difficult to define that number ongoing because the businesses are getting completely integrated into each other. The cost part is easier, but this gets a bit fuzzy and that is why we are having some difficulty in coming up to the exact number.

Saurabh: On the same question, you must be having in mind different synergy targets across different geographies, like you highlighted that these revenue synergies are tracking as per plan, so all the geographies are going as per what you have envisaged or some of the geographies you are able to deliver better than what you have been expecting and some geographies might still be lagging, is that kind of scenario or it is more of all geographies you are able to deliver on your expectations?

Diego Casanello: I think it is overall we are tracking well with our synergy targets or actually even ahead of our synergy target but obviously the mix by region is different because of the demand situation in each of that region, for example, in the case of Brazil, we are able to accelerate some of these revenue synergies but in the case of Europe, for example, we are seeing also a bit of slowdown in the capturing, but that is normal, that is something we are expecting.

Jai Shroff: When you look at such a difficult market that we have gained market share in almost all the market - that is considered revenue synergy. We are able to grow amidst very difficult situation where the market is quite competitive, and all the companies are having integration, focusing on trying to maximize revenues. We are gaining market share, almost every market, so that is only possible because the teams are working together and they are capturing synergies, otherwise that is not possible.

Saurabh: And secondly, on the synergies on the cost side, we had plans that we will be getting better raw material buying terms in a supplier base, so how these contracts would be structured for Arysta, now from the vendors are there, mix of short term and long term contracts or it is more of a long-term contracts which has a higher share of these raw material supply?

Diego Casanello: So legacy Arysta contracts were usually not long term and we are talking either quarter by quarter contracts, so our ability to adjust pricing has been actually very good and good part of the over performance in cost synergies has been our ability to purchase better and now obviously putting the two companies together the volume on some raw material, some active ingredients have significantly increased and that has increased our bargaining power. That so far is a success story in integration.

Moderator: Thank you. We move to the next question that is from the line of Rishab Bothra from Share khan. Please go ahead.

Rishab Bothra: Can you once again elaborate the debt figures, gross debt and cash and net debt figure?

Anand Vora: So gross debt is 30858 crores and net debt is 28,881 crores.

Rishab Botra: And compared to last year, 29,287?

Anand Vora: 29,287 and 26,436.

Rishab Botra: And sir, can you have the profitability figure on geography wise, if possible? And how did it turned out compared to last year?

Anand Vora: We generally don't share the profitability numbers geography wise.

Rishab Botra: But any sense on which margin profitability has improved and otherwise and?

Anand Vora: Yes, I think margins have been maintained as we said there are 2-3 reasons which we cited for the slight reduction in margins is because of the geographical mix as we shared that Latin America has been higher and related to some other markets like Europe and US, margins are slightly lower there and other is because of the rupee depreciation.

Rishab Botra: And since overall company level, we have volume growth and realization has been on a moderate side, is it true for all geographies as well?

Anand Vora: Not necessarily. There have been one or two products, otherwise we are generally seeing a good improvement in the pricing but there are few products and as we said one or two geographies where we have slightly lower margins.

Moderator: Thank you. We move to the next question that is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: My question is regarding Mancozeb, so how was the performance of Mancozeb base product and the new product you have launched, Tridium, so how was the response of that?

Diego Casanello: Very good so far and obviously in Brazil with the current conditions, this is helping us traction the businesses by also the introduction of new mixes. Our fungicide sales in Brazil overall has increased in Q2.

Sumant Kumar: And how was the response of the new product of Tridium?

Diego Casanello: Very positive, it is a product we are promoting and now we have a larger organization, so that means we can reach more acres, do more demo trials, combine in a programs, so we are not selling just one product, we are selling the entire program and our teams are doing a great job in promoting those value added mixtures.

Sumant Kumar: Integration cost?

Anand Vora: Integration cost you are referring to, not the synergy savings. The cost we had mentioned about $60 to $80 million for this year.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question, in your notes to accounts in the exceptional, there is some mention of LATAM restructuring, could you give some colour on that? Was that a big shift that we have seen in LATAM? What exactly was that?

Anand Vora: No, because there are two things on the exceptional things, one is regarding the 217 crores which is coming out of Agrofresh and the other is largely related to redundancy and integration cost. That has been the main cost factor.

Neha Manpuria: So there is no big restructuring that has happened in LATAM?

Anand Vora: Nothing as of now.

Neha Manpuria: My second question is, given that Europe has been weak and North America has been weak, we have talked about pricing pressure because of competition getting aggressive, as we go into the next season, is there a chance that pricing could remain under pressure, we get more aggressive and therefore pricing remains weak, even through next year across markets?

Diego Casanello: When I talk about pricing pressure is from selective products, overall if you look at our margin situation by region is quite stable and this is because you have price pressure on some active ingredients but you also have a relief from raw material standpoint, so that margin wise, we are quite confident to say that we can maintain our margin power right now.

Moderator: Thank you. The next question is from the line of Abhijeet Akela from IIFL. Please go ahead.

Abhijeet Akela: Just a couple of quick ones. One is, there has been a slight decline in finance cost this quarter on a quarter-on-quarter basis and slight increase in the D&A, so just if you could talk about the reasons for these and whether this is right run rate to trend off of now going forward?

Anand Vora: I think we will work towards even further reduction in interest cost, as we are talking about generating cash and repaying some of the debt, so you should see some, although it will happen towards the fag end of the year but we still believe that there is an opportunity to reduce the interest cost. It is a function of capitalization as we share with you it is kind of about 850 crores in the first half towards capital asset, so obviously there will be some impact of that of increased depreciation.

Abhijeet Akela: And last quick clarification, are there any specific debt to EBITDA kind of covenant targets that we have committed to the banks by the end of this year that we need to…

Anand Vora: No, we have no commitments on that.

Moderator: Thank you. The next question will be the last question from the line of Ramesh from Nirmal Bang. Please go ahead.

Ramesh: I just wanted to understand this run rate you have given on the slide on the synergies, so you are talking about 1100 crores this year and going up to 1500 crores in 3 years, so if you are looking at ballpark USD 350 plus USD 200 million that is about 3750, so you are saying that by the end of third year you will achieve both the revenue and the cost synergies combined, is it the way we should understand that?

Anand Vora: By the end of third year, we should be achieving both, you are right.

Ramesh: Second is in terms of your business going forward, now you have achieved volume growth of 11%, pricing is under pressure, so if I were to ask you in terms of where you see the variables moving over the next 3 years the what is the lever you have. If you have to improve margins assuming that the kind of volumes sustain, should you expect some pricing power going forward based on the new products you are introducing or do we have to see the raw material prices easing from the current levels and thereby gross margins improving over a period of time, where do you see more, shall we say manageable lever in terms of your business going forward?

Diego Casanello: We can say that now with the combined company we have obviously much bigger footprint, apart of the synergies that we have been reporting as a target. You will see that we are present in segments that are growing faster than the rest of the market. BioSolutions is one, seed treatment is another one, replacing Glyphosate with other herbicides is another one but we are also present relatively stronger in emerging countries which are growing faster than the average of the crop protection market, so that is also going to bring us momentum. We also have an R&D pipeline that we are executing on significant value in the billions of dollars range and overall, we believe that with our very cost competitive position in relative to our peers, we can continue to gain market share and wherever there is a need to play harder in terms of pushing for volumes, so we are very well positioned both in more competitive segments as well as more higher value added segments.

Anand Vora: Just to add what Diego said we also will get the benefit of operating leverage as we significantly improve the volume.

Ramesh: So you are saying as the combination of both some modest increase in pricing power as well as some savings on the input cost based on?

Anand Vora: That is right.

Jai Shroff: This is a particularly difficult year, we don't think that every year will be the same and so many geographies at the same time have had trouble, it can still happen again but it is unlikely and our product mix and all the innovation, all the synergies which will be accrued going forward will really help us to be more competitive.

Moderator: Thank you. We take the next question from the line of Rohan Gupta from Edelweiss Securities. This will be the last question.

Rohan Gupta: Sir, just want to have a bit more clarification on the case which we have lost in the US, so I mean what was the particular reason for that and though you have mentioned that you will be filing again but just wanted to little bit understand more about it? Again at the Agrofresh?

Anand Vora: It was the case basically that we have got the technology from a professor who had invented the delivery mode for the molecule, who happened to be the consultant also to Agrofresh and it was nothing to do with UPL but really it so happens under the US law that we got tagged along with the professor and being in the deep pockets we got at the receiving end of that whole case and the litigation was really about we misusing the trade secrets of the company and actually the award which came against the request from the company of Agrofresh of more than $300 million, the jury actually gave them only an award of $1 million. It was actually the punitive damage which is the 24 million out of the 31 million. So, as you see actually the damages which was really claimed has not been really upheld by the jury but being a jury trial, they had an opportunity and so obviously we are going to file an appeal against this case going forward.

Jai Shroff: And also, the professor had a patent in his own name and when we signed an agreement with him for distributing his product and that was through litigation with him and the Agrofresh that ended upon our head which was not originally on our head. So we feel quite confident that in an appeal, there is a very good chance that we will at least prevail because UPL has done nothing wrong and in fact since the original litigation, we have also invalidated the patent which they are filing over and therefore they did not file on a patent basis but on an trade secret basis and the lawyers of the opposition were not able to prove any specifics around their trade secret, because they have no trade secrets, we believe they have no trade secrets, it is a technology which went off patent in 2014 and it is something which has been in use for 20 years or so, at least it has been available and there are other people in the market but in the jury trial, you sometimes do not get a fair judgement.

Rohan Gupta: Sir, this was only for the single product sir, patent use which we have done or there are still some more products which we are using…

Management: There is no patent use. The patent has been invalidated, so that is why they went on a trade secret. It is not a patent one.

Rohan Gupta: So, the case is now on the trade secret not on the patent?

Management: Case is over. We are filing, there is no more case. We are going to appeal.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Anand Vora: Ladies and gentlemen, thank you very much for joining us for this call and we appreciate. In case you have any further questions, you can reach out to Ashish Narkar or myself and we will be happy to answer them. Thank you very much. Thanks Nitin and thanks to the IDFC team.

Moderator: Thank you. Ladies and gentlemen, on behalf of IDFC Securities, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.